

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SAM-01 SP-02 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

H-02 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01 USIA-06

PRS-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 4789

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID UNN

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

C O N F I D E N T I A L LISBON 6429

E.O. 11652: GDS

TAGS: BGEN, PO

SUBJ: GENERAL MOTORS ENCOUNTERING SEVERE DIFFICULTIES

SUMMARY: GENERAL MOTORS DE PORTUGAL FACING SEVERE FINANCIAL
DIFFICULTIES. COMPANY MAY BE SERIOUSLY CONSIDERING DECISION
TO CEASE OPERATIONS IN PORTUGAL. DECISION TO CLOSE WOULD UN-
DOUBTEDLY SPARK STRONG ANTI-GENERAL MOTORS AND ANTI-USG PRESS
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ATTACK. END SUMMARY.

1. MR. WINFRIED SCHNITZLER, ACTING GENERAL MANAGER OF OF GENERAL MOTORS DE PORTUGAL (GMP), VISITED EMBASSY THURSDAY, OCTOBER 30, TO DESCRIBE COMPANY'S DIFFICULTIES. ASSEMBLY OPERATIONS AT GMP, WHICH HAD RECENTLY BEEN AT 60 PERCENT OF CAPACITY, HAVE GROUND TO A HALT AND FIRM FACES 1975 LOSS OF AT LEAST \$2.5 MILLION. COMPANY HAD REDUCED INVENTORIES BY 50 PERCENT TO IMPROVE ITS CASH FLOW. DURING PAST FEW WEEKS, MOREOVER, COMMERCIAL BANKS HAVE REPORTEDLY BEEN DELAYING INCREASINGLY GMP REQUESTS FOR LETTERS OF CREDIT. BECAUSE OF REDUCED INVENTORIES AND SHORTFALL IN IMPORTS, COMPANY HAS HAD TO STOP PRODUCTION FOR LACK OF MATERIALS.

2. GENERAL MOTORS HAS, SINCE FIRST OF YEAR, PRESENTED GOVERNMENT THREE PROPOSALS FOR PLACING COMPANY ON SOUND FINANCIAL BASIS. LATEST APPROACH MADE TO MINISTER OF INDUSTRY MARQUES DO CARMO ON OCTOBER 21. MINISTER LISTENED SYMPATHETICALLY BUT HAS NOT RESPONDED. GENERAL MOTORS OFFICIALS ALSO CALLED ON BANK OF PORTUGAL. LATTER, IN ADDITION TO OFFERING NO SOLUTION, INDICATED GOP'S FORTHCOMING EMERGENCY ECONOMIC PROGRAM MAY SEVERELY AFFECT PASSENGER CAR INDUSTRY.

3. GMP WORKERS REPORTEDLY FEAR THAT FIRM WILL CEASE OPERATIONS, AND PARTICULARLY THAT IT WILL DO SO WHILE GMP HAS INSUFFICIENT ASSETS TO COVER INDEMNIZATION. THEY DECIDED OCTOBER 27 TO PREVENT COMPANY FROM SELLING ITS AVAILABLE FINISHED UNITS UNLESS AN EQUAL NUMBER OF IMPORTED UNASSEMBLED UNITS IS SIMULTANEOUSLY RECEIVED. COMPANY'S INCOME, THEREFORE, HAS BEEN REDUCED TO SMALL AMOUNTS RECEIVED FROM SALES OF REPLACEMENT PARTS. MR. SCHNITZLER ADMITTED THAT CURRENT ASSETS WOULD NOT COMPLETELY COVER INDEMNIZATIONS IN EVENT OF CLOSURE. WORKERS NOW REQUESTING "DIALOGUE" WITH MANAGEMENT, BUT MANAGEMENT REFUSED TO NEGOTIATE UNTIL WORKERS REVOKE THEIR UNILATERAL BAN ON SALES OF FINISHED UNITS.

4. EMBASSY OFFICERS ASKED IF THEY COULD PROVIDE ANY ASSISTANCE, BUT MR. SCHNITZLER DID NOT IMMEDIATELY ACCEPT THIS OFFER. HE PROMISED TO CONTACT THE EMBASSY SHOULD ITS ASSISTANCE BE REQUIRED. HE STATED THAT HIS CALL WAS DESIGNED BASICALLY TO KEEP EMBASSY INFORMED. HE ALLUDED TO ALLEGED CRITICISM OF ITT FOR NOT HAVING NOTIFIED EMBASSY PRIOR TO THAT COMPANY'S WITHDRAWAL

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FROM PORTUGAL. MR. SCHNITZLER CLAIMED THAT GENERAL MOTORS DID NOT WANT TO BE THE OBJECT OF SIMILAR CRITICISM. HE IS PLANNING TO TRAVEL TO NEW YORK THIS WEEKEND.

5. COMMENTS: MR. SCHNITZLER INDICATED QUITE CLEARLY THAT CURRENT SITUATION, FROM GENERAL MOTORS' POINT OF VIEW, IS INTOLERABLE. ALTHOUGH HE DID NOT STATE THAT COMPANY HAS DECIDED TO TERMINATE OPERATIONS IN PORTUGAL, HIS REMARKS STRONGLY INDICATED

THAT COMPANY IS SERIOUSLY CONSIDERING SUCH A POSSIBILITY. IN-
DEED, HIS TRIP TO NEW YORK MAY BE FINAL STEP OF THIS DECISION
PROCESS. ALTHOUGH EMBASSY OFFICERS EMPHASIZED THEIR DESIRE TO
HELP, AND CERTAINLY BEFORE RATHER THAN AFTER ANY GM DECISION TO
TERMINATE OPERATIONS IN PORTUGAL, IT APPEARS QUESTIONABLE THAT
GM WILL SEEK EMBASSY INTERVENTION BEFORE COMPANY MAKES DECISION.
SHOULD GM CLOSE, BOTH IT AND USG WILL UNDOUBTEDLY BECOME TARGETS
OF SEVERE ATTACKS FOR ECONOMIC SABOTAGE, ETC.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 31 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LISBON06429
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750378-0831
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975102/aaaaabee.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 24 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 APR 2003 by KelleyW0>; APPROVED <28 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GENERAL MOTORS ENCOUNTERING SEVERE DIFFICULTIES SUMMARY: GENERAL MOTORS DE PORTUGAL FACING SEVERE FINANCIAL
TAGS: BGEN, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006